

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

COVENANT FINANCIAL CORPORATION / COVENANT BANK

Point of Contact:	Deborah Wimberly	RSSD: (For Bank Holding Companies)	3212046
UST Sequence Number:	663	Docket Number: (For Thrift Holding Companies)	n/a
CPP/CDCI Funds Received:	5,000,000	FDIC Certificate Number: (For Depository Institutions)	57039
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	June 05, 2009	City:	Clarksdale
Date Repaid ¹ :	N/A	State:	Mississippi

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Total loans have increased by \$999,000 from 3/31/10 to 3/31/11. Net loans charged off for the same period were \$2,039,000.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

The largest increase in loans \$7,353,000 was in the commercial R/E sector, which offset a significant decrease in construction loans of \$4,326,000. The demand for consumer loans has been soft with these levels decreasing by \$718,000 from 3/31/10 to 3/31/11, even after offering special car loan rates.

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☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

\$2,335,000 has been placed in the loan loss reserve from 3/31/10 to 3/31/11.

☐ Reduce borrowings.

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☒ **Increase charge-offs.**

Net charge offs for loans for period from 3/31/10 to 3/31/11 were \$2,039,000. Also the bank experienced losses on investments in bank pooled trust preferreds of \$924,000 for the same period.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Prior to 3/31/11, we have not had to raise capital through the issuance of common stock which would result in a dilution in present ownership of bank. With the losses in our investments in pooled bank trust preferred debt and one significant loan loss involving a commercial building in Atlanta GA, there will be a common stock offering in the second quarter, 2011.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.